

## SPECIAL NEWSLETTER

### BUDGET UPDATE 2009

The Federal Government recently released its 2009 Budget amidst a backdrop of slowing global growth and an ever increasing budget deficit. The large decrease in tax revenues due to the economic slowdown has seen the Government introduce some tough and rather unpopular measures in this year's budget.

In this special newsletter, we have summarised some of the key announcements made in the budget and their potential implications for tax and financial planning strategies.

### 1. Personal tax rate changes and offsets

The government confirmed personal tax rate cuts for individuals as per previous budget proposals. The following table outlines the changes:

2008/2009		2009/2010		2010/2011	
Tax Thresholds	Tax Rate	Tax Thresholds	Tax Rate	Tax Thresholds	Tax Rate
\$0 - \$6,000	Nil	\$0 - \$6,000	Nil	\$0 - \$6,000	Nil
\$6,001 - \$34,000	15%	\$6,001 - \$35,000	15%	\$6,001 - \$37,000	15%
\$34,001 - \$80,000	30%	\$35,001 - \$80,000	30%	\$37,001 - \$80,000	30%
\$80,001 - \$180,000	40%	\$80,001 - \$180,000	38%	\$80,001 - \$180,000	37%
\$180,001 +	45%	\$180,001 +	45%	\$180,001 +	45%

#### Low Income Tax Offset (LITO)

In addition to the above the government has increased LITO over the next two financial years as per the table below.

	2008/2009	2009/2010	2010/2011
Low Income Tax Offset	\$1,200	\$1,350	\$1,500

The increase in LITO effectively increases the tax free thresholds for both senior and non-senior Australians. The following table outlines the effective tax free thresholds for these groups:

	2008/2009	2009/2010	2010/2011
Non Senior Australians	\$14,000	\$15,000	\$16,000
Senior Australians (single)*	\$28,867	\$29,867	\$30,685
Senior Australians (each member of couple)*	\$24,680	\$25,680	\$26,680

\* This is based on the Senior Australians who are eligible for the Senior Australian Tax Offset, ie individuals over Age or Service Pension age.

#### Comment

All individual taxpayers will receive a small income tax cut from 1 July 2009.

## 2. Medicare Levy Threshold, Medicare Levy Surcharge and Private Health Insurance Rebate

Effective from 1 July 2010, the Government has proposed three new income level tiers to determine:

- Rate of Medicare Levy Surcharge for persons without private health insurance
- Rate of private health insurance rebate

	Minimum Threshold	Tier 1	Tier 2	Tier 3
<b>*Income (Singles)</b>	\$0 to \$75,000	\$75,000 to \$90,000	\$90,000 to \$120,000	\$120,000 +
<b>*Income (Couples combined)</b>	\$0 to \$150,000	\$150,000 to \$180,000	\$180,000 to \$240,000	\$240,000 +
<b>Surcharge Levy</b>	Nil	1%	1.25%	1.5%
<b>Rebate &lt; age 65</b>	30%	20%	10%	No Private Health Insurance Rebate
<b>Rebate at age 65</b>	35%	25%	15%	
<b>Rebate at age 70</b>	40%	30%	20%	

\*Income levels will be indexed to movements in Average Weekly Ordinary Times Earnings (AWOTE).

Singles and couples with income below the Tier 1 level will have no Surcharge Levy applied and will continue to be eligible for the full 30%, 35% or 40% private health insurance rebate they currently receive.

Where income exceeds the limits outlined above, the private health insurance rebate will reduce or be eliminated for those individuals who have private health insurance. Where an individual doesn't have private health insurance, the Medicare Levy Surcharge will be payable at the rates stated above (in addition to the standard levy of 1.5%).

### Comment

This measure is aimed squarely at higher income earners and will reduce the amount of disposable income for these individuals.

The Opposition have vowed to block this measure and have instead offered an alternative proposal which will increase the amount of excise on cigarettes, and possibly, alcohol.

### Medicare Levy Threshold

The low income Medicare Levy Thresholds will increase with effect from 1 July 2008 as follows:

	2008/2009
Individuals	\$17,794
Families	\$30,025
Pensioners below Age Pension age	\$25,299
Additional threshold amount for each dependant child / student	\$2,757

### 3. New Reduced Limits for Concessional Contributions to Superannuation

From 1 July 2009, the Government has reduced the concessional contributions cap, ie the amount which can be contributed to superannuation for which a tax deduction can be claimed, by 50%. For the 2009/2010 financial year the cap will be reduced to \$25,000 for people aged under 50 and \$50,000 for people aged over 50.

The non-concessional contributions cap, ie where no tax deduction is claimed for the contribution, remains unchanged at \$150,000. However, there has been a change in the calculation method for this limit and it will now be 6 times the concessional contributions cap.

Given that the concessional contributions cap will only be increased by \$5,000 at a time in accordance with movements in Average Weekly Ordinary Times Earnings (AWOTE), it may be seven years before these caps are increased.

The table below outlines the new limits to tax deductible (concessional) contributions that will apply from 1 July 2009.

Age	Contribution Limits prior to 1/7/09	Contribution limits after 1/7/09
< 50	\$50,000	\$25,000
50 and over	\$100,000	\$50,000*

\* \$50,000 limit will apply until the 2011/12 year. From 1/7/2012 all age groups will be limited to \$25,000 per year for concessional contributions.

The penalties for breaching the contribution limits remain the same. Generally, the penalties result in the top marginal tax rate of 46.5% applying to contributions in excess of the limits.

Contributions to superannuation that count towards the Concessional Contributions cap are as follows:

- Employer Superannuation Guarantee (SG) contributions (from all employers),
- Employee Salary Sacrifice contributions,
- Contributions by individuals meeting the definition of "self-employed" where a tax deduction is claimed. This may include contributions to "protection only" insurance policies held under the umbrella of superannuation,
- Payments by the Australian Taxation Office for Superannuation Guarantee shortfalls,
- Amounts above the vested entitlement at transfer date from overseas superannuation funds.

**Comment**

This change will impact immediately on the retirement planning strategies of many higher income earning individuals. It will also impact a greater number of individuals in the longer term as an ever increasing number of individuals seek to accumulate wealth for retirement in the concessional tax environment of superannuation.

There is now a strong case of commencing retirement savings in superannuation earlier and maximising concessional contributions to superannuation in the current financial year.

Looking ahead, salary sacrifice arrangements beyond 1 July 2009 should be reviewed, along with any Transition to Retirement strategies.

The penalty tax at the rate of 46.5% on contributions exceeding the caps is severe.

## 4. Co-Contribution Matching Rate Reduced

The Government has reduced the matching rate for the superannuation co-contribution for the next 5 financial years, commencing 1 July 2009. The rate has reduced from 150% at present to 100% for the 2009/2010, 2010/2011 and 2011/2012 financial years.

The rate will then increase to 125% for the 2012/2013 and 2013/2014 financial years. Finally, the rate will return to 150% from 1 July 2014.

### Comment

For the 2008/09 financial year, the maximum co-contribution payable is \$1,500 for a \$1,000 after tax superannuation contribution by an individual with adjusted taxable income of less than \$30,342. The co-contribution phases out for individuals with adjusted taxable income of more than \$60,342.

From 1 July 2009, the maximum payment will be \$1,000 for the next three financial years. In addition, changes have been made to the calculation of adjusted taxable income, with salary sacrifice contributions being included in the calculation from 1 July 2009, along with reportable fringe benefits and "cash" salary received. While less people may be eligible and receive less of a co-contribution, it is still an effective return of 100% on after tax monies contributed to superannuation by lower income earners.

## 5. Account Based Pension Minimum Drawdown Relief Extended

The current 50% reduction in minimum pension drawdowns for superannuation income streams has been extended for the 2009/2010 financial year.

The following table displays the minimum drawdowns that are now applicable for the 2008/2009 and 2009/2010 financial years.

Age as at 1 July	Minimum Pension Limits for 2008/09 and 2009/2010 financial years	Previous Minimum Limits
Under 65	2%	4%
65 - 74	2.5%	5%
75 - 79	3%	6%
80 - 84	3.5%	7%
85 - 89	4.5%	9%
90 - 94	5.5%	11%
95 +	7%	14%

### Comment

The reduction in the minimum limit for the 2008/09 financial year was announced in February 2009 in response to "concerns that meeting the minimum drawdown limit in 2008/09 will mean having to sell investment assets and realise losses in a depressed market". The Government has extended this relief for the 2009/2010 financial year.

While reducing the limit is of benefit to individuals who don't need the income from a superannuation pension to meet day-to-day living expenses, it is of little or no benefit to those individuals who rely on a superannuation pension to fund the majority of their day-to-day living expenses.

In assessing this change, individuals should consider reviewing their overall financial situation and whether they have cash reserves set aside in their individual names that could be used to avoid the need to sell assets within a superannuation fund. Most superannuation funds have now implemented a process for reducing the amount withdrawn from a pension account to the new minimum limits if sought by the individual member.

## 6. Increase in Age Pension and Changes to Payment of Allowances

The full rate of Age Pension will increase as per the following:

- \$64.98 per fortnight for singles
- \$20.28 per fortnight for couples (combined)

From 20 September 2009 the maximum age pension will be:

Status	Pension rate per fortnight
Single	\$673.36
Couple	\$507.50 each

### Indexing

In addition to the above, a new index will apply to calculate increases in the rate of Age Pension payable from 20 September 2009.

- The index used will be the "Pensioner and Beneficiary Living Cost Index" will be used to index base pension rates where it is higher than the Consumer Price Index (CPI).
- CPI will be used to index the Income and Assets tests.

### Comment

This measure has been introduced to help offset costs that increase at a higher rate than inflation, such as fuel & food. The index will ensure that Age Pension payments increase at least in line with CPI.

### Pension Supplement Payment Changes

From 20 September 2009 the following allowances will be bundled into a fortnightly pension supplement:

- Goods and Services Tax Supplement
- Pharmaceutical Allowance (\$156 pa)
- Utilities Allowance (\$518 pa)
- Telephone Allowance, including internet (\$138.40 pa)

### Comment

The inclusion of these amounts with the fortnightly pension payment will simplify the Age Pension system and reduce the incidences of payment amounts changing from fortnight to fortnight. To assist with lump sum expenses recipients are able to take half of the new supplement as a quarterly payment if they wish to.

## 7. Seniors Supplement

Much like the Pension supplement, the Seniors Supplement payable to holders of the Commonwealth Seniors Health Card will also be consolidated. The Concession allowance and the Telephone allowance will be paid quarterly from 20 September 2009.

Single Commonwealth Senior Health Card holders will receive an additional \$129. The allowances total:

- \$790.40 for singles (per annum)
- \$1,190.80 for couples (per annum)

## 8. Commonwealth Seniors Health Card Eligibility

The Government announced that it will not proceed with its plan to include tax free income from superannuation income streams when determining eligibility for the Commonwealth Seniors Health Card from 1 July 2009.

However, other income test reforms which count back such things as tax deductible contributions to superannuation in the calculation of assessable income for calculating eligibility to the Commonwealth Seniors Health Card will come into effect from 1 July 2009.

### Comment

The Government announced in the 2007/08 Federal Budget that tax free income from superannuation income streams would be included in the definition of income for eligibility to the Commonwealth Seniors Health Card. The income limits are \$50,000 for singles and \$80,000 (combined) for couples.

The inclusion of tax free income from superannuation income streams towards these limits was expected to result in many people losing their entitlement to this card. However, this is no longer the case.

## 9. Age Pension age lifted to 67 by 1 July 2023

The Government announced its intention to increase the age at which individuals can access the Age Pension to encourage people to work longer. The following table displays the proposed Age Pension age limit changes:

From	New Age Pension Age	Affects People Born	Current Age
1 July 2017	65 years 6 months	1 July 1952 – 31 Dec 1953	55.5 – 57
1 July 2019	66	1 Jan 1954 – 30 Jun 1955	54 – 55.5
1 July 2021	66 years 6 months	1 July 1955 – 31 Dec 1956	52.5 – 54
1 July 2023	67	1 Jan 1957 - onwards	52.5 or younger

### Comment

At the time of writing, this measure is being heatedly debated by a number of lobby groups with unions, in particular, unhappy that many workers will need to work longer before being able to access the Age Pension in retirement.

The increase in age limit brings Australia in line with many other OECD countries, including the UK, US and Germany.

## 10. Age Pension Income Taper Test

The Government has increased the pension reduction for income amounts above the relevant minimum thresholds. In addition they have removed the additional income threshold for pensioners with children so that they now fall in line with other pensioners.

From 20 September 2009, the rate of Age Pension payable will reduce by 50 cents in the dollar for singles and 25 cents in the dollar for couples under the Incomes Test. The effect will be that the Income Test cut off threshold will reduce down from approximately \$47,444 to \$38,693 for singles and from \$72,423 to \$59,228 for couples combined.

There will be a transitional safety net applied to individuals who currently receive a part Age Pension limited by the Incomes Test to ensure that they are allowed to keep existing entitlements, maintained in real terms, plus an increase of \$20.28 per week for singles or couples combined. These individuals will continue to receive the existing entitlements until they are better off under the new limits described above.

## **Comment**

The effective lowering of the Incomes Test upper threshold will reduce the number of people eligible for the Age Pension under the Incomes Test. The introduction of a transitional safety net for individuals who currently receive a part Age Pension limited by the Incomes Test will result in more complex calculations being required to forecast retirement income for these individuals.

## **11. Pension Bonus Scheme – New Work Bonus**

The Pension Bonus Scheme, which provides for a lump sum bonus for working beyond Age Pension age and not claiming Age Pension entitlements, will be closed from 20 September 2009. Existing members in the scheme will continue to accrue benefits as per the pension bonus accrual rules.

The Pension Bonus Scheme will be replaced by a new "Work Bonus" scheme. This will be a new income test concession for employment income.

The bonus will exempt 50% of the first \$500 of employment income per fortnight from the Incomes Test, enabling up to \$250 per fortnight of employment income to be excluded. Under the proposal, this will result in eligible individuals receiving up to \$125 per fortnight more in Age Pension than under existing rules.

## **Comment**

The Government have advised that the new scheme will be simpler than the existing Pension Bonus Scheme. Under the Pension Bonus Scheme, a maximum lump sum of \$34,814 for singles and \$29,077 (each) for members of a couple is payable where the individual is eligible for the full Age Pension at the time of claim after working for an additional five years past Age Pension age.

It is important to note that individuals must register for the Pension Bonus Scheme to start accruing benefits. An individual who turns age 65 before 20 September 2009 and is, or intends to, continue working past age 65 should seek advice about which scheme will provide them with a better outcome.

## **12. Small Business Tax Relief for Capital Expenditure**

As part of previous fiscal stimulus packages, the Government had announced that small businesses (ie, those with a turnover of less than \$2 million) would be able to claim a bonus tax deduction for the acquisition of eligible assets, in addition to the usual capital allowance deduction. Initially set as a 10% bonus deduction, this deduction has previously been increased to 30% and was lifted again to 50% in the Budget.

To be an eligible asset for the bonus, the asset must:

- Cost more than \$1,000 (although substantially similar assets may be aggregated in order to reach this threshold).
- Be a depreciable asset such as a motor vehicle, office furniture, computers (but not software), plant and equipment.
- Be purchased between 13 December 2008 and 31 December 2009.
- Be used or installed ready for use by 31 December 2010.

For non-small business taxpayers, the minimum asset threshold to qualify for the bonus is \$10,000. A bonus deduction of 30% is able to be claimed for assets purchased between 13 December 2008 and 30 June 2009 or 10% if purchased between 1 July 2009 and 31 December 2009. In both cases, the asset must be used or installed ready for use by 31 December 2010.

## 13. Changes to taxation of Employee Share Scheme Entitlements

In a move which is aimed at simplifying the treatment of shares or options acquired under employee share schemes, effective from 7.30 pm on 12 May 2009, all discounts on shares and options provided under an employee share scheme will be assessed in the income year in which they are acquired.

The effect of this is that employees acquiring shares or options under qualifying employee share schemes will no longer be able to elect to defer taxation on their discount to a later time.

Previously, an employee under a qualifying share scheme could elect to be assessed on discounts provided on shares or options in the income year the shares or options were acquired (and will continue to be for shares or options acquired before 7.30 pm on 12 May 2009). If no election is made, the discount is taxed at a later time (such as when the disposal restrictions on the shares or options are lifted). If an employee elects to be taxed upfront, they receive a tax exemption of up to \$1,000 on the discount.

Access to the \$1,000 upfront concession will also be limited. The \$1,000 upfront tax exemption will be limited to those employees with a taxable income of less than \$60,000 after adjustment for fringe benefits, salary sacrifice and negative gearing losses.

### Comment

This change has also proved very unpopular with over 90% of listed ASX companies that offered employee share schemes suspending them in the days following the announcement. Executives of smaller research and development companies have also expressed concerns with the changes as it has the potential to limit their ability to attract talented staff by offering them options to acquire shares rather than higher salaries at a time when cashflows are tight.

The Government has since announced that they are prepared to negotiate on the limits announced, but wish to maintain the changes to the tax treatment.

## 14. Further Developments to come

It should be noted that the Government is still to receive the final report from the Henry Tax Review. This review is not due to be finalised until December 2009. However, in preparing for the Budget, the Government received an interim report from this review along with a report on the Retirement Incomes and Pension System (the Harmer Report).

The Henry Tax Review has very wide terms of reference, with all aspects of the Australian taxation system included. The only exceptions are the rate of the Goods and Services Tax (GST) and tax free payments from superannuation funds for individuals over the age of 60.

Depending on the recommendations made in the review, there is the potential for significant changes to be made to the taxation landscape in Australia in the near future.

---

### Disclaimer

*This document contains general advice only. This information does not take into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. Accordingly before acting on any information contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your Strategem Financial Group adviser.*

*Whilst the information contained in this document is believed to be accurate, no warranty is made as to the accuracy or reliability of any estimates, opinions, conclusions or other information contained in this document and, to the maximum extent permitted by law, Strategem Financial Group disclaims all liability for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained or omitted from this document.*